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Message Text

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ORIGIN TRSE-00

INFO OCT-01 ISO-00 EA-10 EB-08 SS-15 NSC-05 CEA-01
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DRAFTED BY TREASURY:IMM ERASMUSSEN
APPROVED BY EA/J:AROMBERG
TREASURY, IM: FLWIDMAN
TREASURY, S: SKANCKE
TREASURY, IMA: DSYVRUD
DESIRED DISTRIBUTION
STATE EA, EA/J, E
----------111353 171129Z /14-L-
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FM SECSTATE WASHDC
TO AMEMBASSY TOKYO PRIORITY

C O N F I D E N T I A L STATE 208102

FOR FINATT

E.O. 11652:GDS

TAGS:EFIN, JA

SUBJECT:MATSUKAWA MEETING WITH SOLOMON AND BLUMENTHAL

REF: TOKYO 13938

1. SUMMARY: IN CONTRAST TO PRESS BUILDUP IN TOKYO (REFTEL) AND IN U.S., MATSUKAWA MEETING WITH TREASURY PRINCIPALS WAS BUSINESSLIKE, LOW KEY REVIEW OF DEVELOPMENTS. MATSUKAWA EXPLAINED GOJ VIEW THAT YEN RISE HAS GONE FAR ENOUGH AND NOTED SIGNS THAT EXPORT VOLUMES ARE DECLINING. HE ALSO SAID GOJ ANALYSTS THINK DOMESTIC GROWTH WILL APPROACH 7 PERCENT WITHOUT A SUPPLEMENTAL BUDGET. SOLOMON NOTED THAT FOREIGN EXCHANGE MARKETS WILL RESPOND TO TREND IN
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DOLLAR DENOMINATED CURRENT ACCOUNT RATHER THAN TRADE VOLUMES; HE ALSO POINTED OUT POLITICAL DANGERS OF INSUFFICIENT JAPANESE GROWTH EFFORT DUE TO MISCALCULATION OF PRESENT RECOVERY MOMENTUM. MATSUKAWA'S MEETING WITH BLUMENTHAL WAS BRIEF WITH ONLY BLUMENTHAL, SOLOMON, MATSUKAWA AND TOGO PRESENT. END SUMMARY.

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2. DURING ONE-HOUR MEETING WITH TREASURY UNDER SECRETARY SOLOMON, DAS WIDMAN, AND RASMUSSEN (DESK OFFICER), MATSUKAWA, ACCOMPANIED BY MIYAMOTO (DIRECTOR, RESEARCH DIVISION, INTFINBU, MOF) AND EMBASSY OFFICIALS MATSUMURO AND MATSUNO, DESCRIBED CURRENT STATE OF GOJ THINKING ON EXCHANGE MARKETS, TRADE, AND DOMESTIC GROWTH. MATSUKAWA SAID GOJ WOULD NOT LIKE TO SEE FURTHER APPRECIATION OF THE YEN. HE SAID THAT ONCE TURNAROUND IN TREND OF JAPANESE BALANCE HAD BECOME EVIDENT, ANYTHING U.S. COULD SAY WHICH WOULD ASSIST IN HOLDING YEN WOULD BE APPRECIATED. HE DID NOT SUGGEST U.S. TAKE ACTION NOW. ON CURRENT ACCOUNT, MATSUKAWA SAID THAT THE DOLLAR EXPORT PRICES INCREASE WERE NOW PARALLELING RISE IN YEN, WITH TIME LAG OF ABOUT THREE MONTHS, AND THAT EXPORT VOLUMES WERE DECLINING. FURTHER DECLINES EXPECTED WHEN PRICES AT RETAIL LEVEL MOVE TO REFLECT PRESENT EXCHANGE RATES. JULY CURRENT ACCOUNT FIGURE IS EXPECTED TO SHOW LARGE DECLINE FROM JUNE FIGURE TO PERHAPS $1.5 TO $1.7 BILLION, WITH SMALLER SUBSEQUENT DECLINES IN PROSPECT. SOLOMON COMMENTED THAT HE HAD CITED THE TRADE VOLUME CHANGES IN PRESS TALKS AND CONGRESSIONAL TESTIMONY, BUT FOREIGN EXCHANGE MARKETS APPEAR TO FOCUS ON TRADE AND CURRENT ACCOUNT BALANCES AS MEASURED IN DOLLARS.

3. TURNING TO JAPAN'S DOMESTIC ECONOMY, MATSUKAWA CITED GROWING CONVICTION OF GOJ ANALYSTS THAT FY78 GROWTH IN DOMESTIC DEMAND WOULD BE QTE NEARLY AS HIGH AS PLANNED
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UNQTE (I.E., 6-1/2 TO 7 PERCENT) WITHOUT SUPPLEMENTAL BUDGET. CHANGES IN EXPORT AND IMPORT VOLUMES WERE ESTIMATED TO REDUCE GNP BY ABOUT 1/2 PERCENT, WITH RESULTING NET RISE IN REAL GNP PROJECTED AT 6 TO 6-1/2 PERCENT. SOLOMON WARNED THAT FAILURE TO PROPOSE SUPPLEMENTAL BUDGET WAS LIKELY TO HAVE NEGATIVE POLITICAL AND PSYCHOLOGICAL IMPACT INTERNATIONALLY, SINCE PREVAILING VIEW WAS THAT IN ABSENCE OF SIZEABLE SUPPLEMENTAL, GROWTH WOULD FALL FAR SHORT OF PRIME MINISTER'S TARGET. HE WONDERED WHETHER THE ANALYSIS TO WHICH MATSUKAWA REFERRED WAS FINANCE MINISTRY ONLY OR WAS SHARED BY OTHER AGENCIES IN GOJ. MATSUKAWA RESPONDED BY CHARACTERIZING THE GOJ ANALYSIS AS QTE WORKING LEVEL UNQTE AND QTE STRICTLY ECONOMIC UNQTE.

4. ON CURRENT ACCOUNT MATSUKAWA EXPRESSED CONFIDENCE FIGURE WOULD BE LESS THAN OECD PROJECTION ($17-1/2 BILLION) BUT MENTIONED POSSIBILITY OF $15 TO $16 BILLION. CITING UNCERTAINTIES MARKED BY EXCHANGE RATE CHANGE, HE NEVERTHELESS HOPED FY 1978 FIGURES WOULD BE BELOW PREVIOUS YEAR'S LEVEL.

5. BRIEF MEETING BETWEEN MATSUKAWA/TOGO AND BLUMENTHAL/

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SOLOMON PRODUCED NO NEW DEVELOPMENTS. MATSUKAWA EMPHASIZED IMPENDING TURN AROUND ON CURRENT ACCOUNT. SECRETARY STRESSED IMPORTANCE OF FURTHER ACTIONS BY GOJ WHICH WOULD BE VISIBLE AND CONCRETE EVIDENCE OF CONTINUING EFFORTS TO ACHIEVE ITS STATED GOALS.

6. IN RESPONDING TO QUESTIONS FROM PRESS ON THE MEETING, TREASURY PUBLIC RELATIONS OFFICER MADE THE FOLLOWING POINTS:

-- WE HAVE HAD A USEFUL DISCUSSION OF THE ECONOMIC AND FINANCIAL CONDITIONS IN JAPAN AND THE UNITED STATES. IN REVIEWING RECENT TRENDS IN TRADE AND DOMESTIC GROWTH AND PRICES, WE DISCUSSED PROSPECTS FOR IMPROVING CONDITIONS
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IN OUR RESPECTIVE DOMESTIC ECONOMIES WHICH WOULD STRENGTHEN THE FACTORS REDUCING EXTERNAL IMBALANCES AND IMPROVE FOREIGN EXCHANGE MARKET CONDITIONS.

-- WE WILL CONTINUE TO CONSULT CLOSELY ON EXCHANGE MARKET DEVELOPMENTS. JAPAN AND THE UNITED STATES EACH FOLLOWS A POLICY OF INTERVENING IN THE FOREIGN EXCHANGE MARKET AS NECESSARY TO COUNTER DISORDERLY CONDITIONS, AND THAT PRACTICE WILL BE CONTINUED. CHRISTOPHER

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